

**DICKINSON COUNTY RURAL WATER DISTRICT NO. 2
ABILENE, KANSAS**

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT**

For the years ended December 31, 2016 and 2015

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2
ABILENE, KANSAS

TABLE OF CONTENTS

	<u>Page Number</u>
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 - 5
Statements of Net Position	6
Statements of Revenues, Expenses and Changes in Net Position	7
Statements of Cash Flows	8
Notes to Financial Statements	9 - 15
Supplementary Information	16



PGH

Certified Public Accountants

Pottberg, Gassman & Hoffman, Chtd.

816 N Washington
Junction City, KS 66441
(785) 238-5166
Fax (785) 238-6830

529 Humboldt, Suite I
Manhattan, KS 66502
(785) 537-9700
Fax (785) 537-3734

505 NW 3rd, Suite 1
Abilene, KS 67410
(785) 263-2171
Fax (785) 263-3340

www.pgh-cpa.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
Dickinson County Rural Water District No. 2
Abilene, Kansas 67410

We have audited the accompanying financial statements of the business-type activities of Dickinson County Rural Water District No. 2 (District), as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit and Accounting Guide*. Those standards and guidance require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

MEMBERS:

American Institute of
Certified Public Accountants

Kansas Society of Certified
Public Accountants



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Dickinson County Rural Water District No. 2, as of December 31, 2016 and 2015 and the respective changes in financial position and where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 and budgetary comparison information on page 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Pottberg, Gassman & Hoffman, Chd.

POTTBERG, GASSMAN & HOFFMAN, CHARTERED
Abilene, Kansas
April 5, 2017

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2
ABILENE, KANSAS
DECEMBER 31, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Dickinson County Rural Water District No. 2 (District) annual financial report, the District's management provides narrative discussion and analysis of the financial activities of the District for the year ended December 31, 2016. The District's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Financial Statements

The attached financial statements present the assets and liabilities, revenues and expenses and changes in net position of the District on the accrual basis of accounting. The statements of net position provide information on all of the District's assets and liabilities, with the difference between the components presented as net position. Net position is reported as one of three categories: net investment in capital assets, restricted, and unrestricted. Over time, increases or decreases in net position may serve as useful indicators of whether the District's financial position is improving or deteriorating.

The statements of activities and changes in net position present information showing how the net position of the District changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave). The statements of cash flows reverse the accruals to show the effect of the annual transactions on the available cash balance. Both the financial statements and supplemental information are shown comparative to the prior year.

Financial Highlights

The District's total assets increased \$8,763 from December 2015 to 2016.

The increase in capital assets, before depreciation, between December 2015 and 2016 was \$79,263 which was the net effect of additions of \$22,229 for the Jeep Road line replacement, \$18,459 for standpipe overflow extensions, and \$44,103 for other infrastructure improvements offset by asset disposals of \$5,528. Construction work in progress decreased \$1,175 related to the completion of the Jeep Road line replacement.

Between December 2015 and 2016, deferred outflows of resources decreased by \$456 due to the amortization on the 2012 bond discount.

Total liabilities decreased \$77,923 from December 2015 to 2016. Total current liabilities decreased \$11,786. Total noncurrent liabilities decreased \$66,137 which is primarily related to the principal payments of \$41,000 for the Kansas Public Water Supply Loan and \$15,000 for the Series E 2012 Bond.

The District's net position increased \$86,230 between December 2015 and 2016 with \$89,374 increase in unrestricted net assets, a \$3,144 decrease in net investment in capital assets. The amounts restricted for the bond and loan reserves remained the same at \$32,426 and \$103,772 respectively.

Operating revenues increased \$171,476 primarily related to an increase in rates effective January 1, 2016, and total operating expenses decreased \$19,624 between December 2015 and 2016. The District realized a gain from operations of \$67,003, after recognizing depreciation expense of \$158,382 in 2016 compared to a realized loss from operations of \$109,699 after recognizing depreciation of \$143,984 in 2015.

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2
ABILENE, KANSAS
DECEMBER 31, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The District realized net non-operating expenses of \$674 in 2016 and \$32,955 in 2015. The lower non-operating expenses in 2015 were primarily related to an offset of other income related to new benefit units installed in 2016.

Total cash on deposit at the end of the year was \$307,681 which was an increase of \$79,491 over the cash on deposit at December 31, 2015. Ending net position was \$2,162,556 and \$2,076,327 as of December 2016 and 2015 respectively and the change in net position was \$86,229 and (\$132,654) for the periods then ended.

Additional Information

During 2016, the District continued with their mandatory conservation measures. These directives have not been lifted since their inception in 2008 and most likely will not be in the near future. Drought conditions of the past few years have depleted the water table in Abilene's well field. It will take considerable rainfall to replenish the water supply. Annual water purchased in 2016 was 60,570,000 gallons, 44,673,000 gallons were sold, 3,149,000 were used in flushing or recognized leaks, and the remainder was a 34% water loss. Four new benefit units were added in 2016 and three forfeited for a total of 682 benefit units in the District.

The District has four Booster Pumping Station facilities. One pumping station was constructed in 1996 and two in 2005. Two pumps for site 24 were rebuilt at a cost of \$3,543. The two pumps for site 22 will be replaced in 2017. All four of these pumps are located in Booster Station 22/24 on Deer Rd. In addition to these improvements all four Booster Stations were wired to accommodate the Generator at a cost of \$3,791.

Overflows were not installed at the time of construction in the 1970's as they were not a requirement at that time. As a matter of safety for employees and the stability of the standpipe should an overflow of water occur, the Board determined that overflows be installed on three of the four standpipes. The Navarre standpipe overflow was installed at the time it was relocated in 2001. Total cost of installation for the remaining three was \$27,689 with \$9,230 of that cost expended in 2015.

The District is over 40 years old and the infrastructure is in constant need of upkeep. In 2016, we installed one mile of 2" HDPE on Jeep Road between 1700 Ave. and 1800 Ave. Total cost of this project which covered 2015 and 2016 was \$21,054. Seventeen mainline valves were replaced at a cost of \$6,174 and four flush-outs were replaced / added totaling \$2,874.

The District carries insurance coverage from EMC Insurance Companies. Due to changing circumstances we now have earthquake coverage on District facilities in the event any losses should occur. Coverage is subject to a 5% deductible. In the event of loss of personal information, the District has Data Compromise Coverage. The balance of insurance coverage includes Property, General Liability, Inland Marine (excavator, skid loader, mower), Automobile, Crime/Fidelity, Workers' Compensation and Directors and Officers Errors and Omissions. This insurance package cost \$17,589 for 2016. EMC pays a dividend each year and in 2016 RWD #2 received \$4,968.

Bobcat offers a special program to municipalities that allows the District to lease equipment at a cost effective rate. The District has participated in this program for several years. We have leased both pieces of new equipment at a cost of \$1,670 for the years 2016 and 2017.

In 2012, the District obtained \$420,000 of Series E, 2012 Revenue Bonds to refund the USDA Rural Development Loan. A reserve amount of \$32,426 is required to be maintained until the debt is paid in full.

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2
ABILENE, KANSAS
DECEMBER 31, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

In an effort to be frugal, operating costs were kept to a minimum in 2016.

The board has designated \$261,468 of unrestricted net assets for capital improvements and \$37,862 for debt payment. Capital contributions are benefit units sold during 2016.

This financial report is designed to provide a general overview of the District's finances and demonstrate the District's commitment to public accountability. If you have any question about this report or would like to request additional information, contact the District office at 804 S. Buckeye, Abilene, Kansas 67410.

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2
STATEMENTS OF NET POSITION
DECEMBER 31,

ASSETS	<u>2016</u>	<u>2015</u>
Current Assets		
Cash and Cash Equivalents		
Checking Accounts	\$ 8,350	\$ 8,571
Money Market Accounts	299,331	219,619
Total Cash and Cash Equivalents	<u>307,681</u>	<u>228,190</u>
Accounts Receivable - Net	50,811	37,514
Prepaid Expenses	-	4,145
Inventory	19,663	24,356
Total Current Assets	<u>378,155</u>	<u>294,205</u>
Noncurrent Assets		
Construction in Progress	-	1,175
Capital Assets		
Water System and Equipment	4,415,936	4,331,145
Abilene Treatment Plant	924,194	924,194
Navarre Project	263,975	263,975
Westar Project	56,170	56,170
Building	229,502	229,502
Office Equipment and Vehicles	112,714	118,242
Accumulated Depreciation	(2,987,284)	(2,833,877)
Total Capital Assets	<u>3,015,207</u>	<u>3,089,351</u>
Certificate of Deposit - Bond Reserve	32,857	32,725
Loan Reserve - KDHE	103,772	103,772
Total Noncurrent Assets	<u>3,151,836</u>	<u>3,227,023</u>
Total Assets	<u>3,529,991</u>	<u>3,521,228</u>
DEFERRED OUTFLOWS OF RESOURCES		
Bond Discount, net of accumulated amortization	<u>8,408</u>	<u>8,864</u>
LIABILITIES		
Current Liabilities		
Accounts Payable	\$ -	\$ 28,948
Payroll Taxes Payable	5,074	4,024
Water Protection and Clean Water Fees Payable	735	744
Sales Tax Payable	165	145
Accrued Interest Payable	15,342	9,850
Compensated Absences	2,802	2,330
Current Portion of Note Payable	15,000	15,000
Current Portion of Loan Payable	20,795	10,658
Total Current Liabilities	<u>59,913</u>	<u>71,699</u>
Noncurrent Liabilities		
Bond Payable - Series E 2012 , net current portion	340,000	370,000
Kansas Public Water Supply Loan	996,724	1,037,724
Less Current Portion	(20,795)	(25,658)
Total Noncurrent Liabilities	<u>1,315,929</u>	<u>1,382,066</u>
Total Liabilities	<u>1,375,842</u>	<u>1,453,765</u>
NET POSITION		
Net Investment in Capital Assets	1,678,483	1,681,627
Restricted for Bond Reserve	32,426	32,426
Restricted for Loan Reserve	103,772	103,772
Unrestricted	347,876	258,502
Total Net Position	<u>\$ 2,162,557</u>	<u>\$ 2,076,327</u>

The notes to the financial statements are an integral part of these statements.

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31,

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Monthly Minimum	\$ 365,674	\$ 271,711
Water Revenues	280,336	202,823
TOTAL OPERATING REVENUES	<u>646,010</u>	<u>474,534</u>
OPERATING EXPENSES		
Analysis of Water System	1,265	1,021
Bad Debt Expense	-	-
Clean Drinking Water Fee	1,356	1,333
Dues and Subscriptions	754	735
Electricity	21,626	27,501
Employee Benefits	4,947	4,163
Insurance	17,613	18,241
Legal, Accounting and Engineering Fees	8,868	14,386
Maintenance Supplies	2,249	20,726
Miscellaneous	823	229
Office Expense	3,126	3,076
Office Maintenance	5,050	1,983
Payroll Taxes	12,698	12,961
Postage	4,549	3,704
Printing	2,356	1,571
Rent and Lease Expense	20,449	3,807
Repairs and Maintenance	40,004	38,997
Salaries and Wages	164,471	157,950
Telemetry System	-	2,379
Telephone	4,419	1,898
Training	1,521	1,046
Travel	89	104
Truck Expense	14,462	20,755
Water, Sewer and Trash Expense	426	600
Water Purchases - Abilene	87,504	101,083
TOTAL OPERATING EXPENSES	<u>420,625</u>	<u>440,249</u>
INCOME FROM OPERATIONS BEFORE DEPRECIATION	225,385	34,285
Depreciation	(158,382)	(143,984)
OPERATING INCOME (LOSS)	<u>67,003</u>	<u>(109,699)</u>
NON-OPERATING REVENUES AND EXPENSES		
Interest Income	734	829
Other Income	41,576	9,472
Other Expense	(90)	(1,008)
New Office Expenses	-	(8,412)
Gain (Loss) on Sale of Assets	(553)	1,500
Interest Expense - Bond	(12,333)	(12,545)
Interest Expense - KDHE Loan	(26,748)	(20,784)
Service Fees on Debt	(3,260)	(2,007)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(674)</u>	<u>(32,955)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	66,329	(142,654)
Capital Contributions	19,900	10,000
CHANGE IN NET POSITION	86,229	(132,654)
NET POSITION, BEGINNING	2,076,327	2,208,981
NET POSITION, ENDING	<u>\$ 2,162,556</u>	<u>\$ 2,076,327</u>

The notes to the financial statements are an integral part of these statements.

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 632,713	\$ 474,292
Cash Payments to Suppliers for Goods and Services	(270,480)	(340,437)
Cash Payments to Employees and Professional Contractors for Services	(168,722)	(172,336)
Net Cash Provided (Used) by Operating Activities	<u>193,511</u>	<u>38,481</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and Construction of Capital Assets	(83,327)	(402,176)
Construction Work in Progress	-	(1,175)
Sale of Equipment	(553)	1,500
Proceeds from Loan	-	288,133
Principal Paid on Bond	(15,000)	(15,000)
Interest Paid on Bond	(11,895)	(12,120)
Other Capital Activities	41,486	52
Change in Reserves	132	130
Principal Paid on Loan	(41,000)	-
Interest and Services Fees Paid on Loan	(24,497)	(13,861)
Capital Contributions	19,900	10,000
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(114,754)</u>	<u>(144,517)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income	734	699
Net Cash Provided (Used) by Investing Activities	<u>734</u>	<u>699</u>
Net Increase (Decrease) in Cash and Cash Equivalents	79,491	(105,337)
Cash and Cash Equivalents at January 1	228,190	333,527
Cash and Cash Equivalents at December 31	<u>\$ 307,681</u>	<u>\$ 228,190</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Income from Operations (before depreciation)	\$ 225,385	\$ 34,285
(Increase) Decrease in Receivables	(13,297)	(242)
(Increase) Decrease in Prepaid Expenses	4,145	(4,145)
(Increase) Decrease in Inventory	4,693	(8,807)
Increase (Decrease) in Payables	(27,415)	(59,572)
Net Cash Provided by Operating Activities	<u>\$ 193,511</u>	<u>\$ 38,481</u>

The notes to the financial statements are an integral part of these statements.

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2
ABILENE, KANSAS
DECEMBER 31, 2016

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Rural Water District No. 2, Dickinson County, Kansas, was declared incorporated by the Board of Commissioners of Dickinson County, Kansas, on April 21, 1972 as a quasi-municipal Corporation under Kansas Statute K.S.A. 82a-612 et seq, for the purpose of providing a water supply system for the landowners within the areas of the District. The following is a summary of the District's significant accounting policies.

Basis of Accounting

The water district is a governmental organization operated as a business (proprietary) type entity. The District's financial information is accounted for using the economic resources measurement focus and the accrual basis of accounting, in conformity with accounting principles generally accepted in the United States of America. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Operating revenues are those that are generated from primary operations. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations. All other expenses are reported as non-operating expenses, such as reimbursements for joining the Water District.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all bank deposit accounts, money market accounts and certificates of deposits classified as current assets to be cash and cash equivalents. Certificates of deposit with maturities of longer than three months can still be used by the District to meet current liabilities if they wish to pay any applicable penalties. At December 31, 2016 and 2015, cash and cash equivalents consisted of demand and money market accounts.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

Capital Assets

Capital assets purchased or built are capitalized at cost or estimated historical cost if actual cost is unavailable. The District's policy is to capitalize all assets with a cost of \$500 or more and a useful life exceeding one year. Depreciation is recorded based on the estimated useful life of each asset using the straight-line method. The estimated useful lives of assets are as follows: buildings – 40 years, water system infrastructure – 40 - 50 years, and equipment – 5 to 20 years.

Inventory

Inventory is stated at cost and consists of supplies to set water meters and items over \$100 when purchased.

Noncurrent Assets

Noncurrent assets primarily include construction in process, capital assets, and reserve for bonds and loans. The amounts placed in the reserve often exceed the amount legally required to be restricted as they may include interest earned and other monies designated by the board to be set aside to meet future obligations. The amounts legally required to be restricted are included in the bonds payable Note 6 and loans payable Note 7.

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2
ABILENE, KANSAS
DECEMBER 31, 2016

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Payable

Accounts payable consist of invoices received from vendors for services or products received during the period but not yet paid.

Taxes

The District is exempt from federal and state income and property taxes.

Date of Management's Review

Management has performed an analysis of the activities and transactions subsequent to December 31, 2016 to determine the need for any adjustments to and / or disclosures within the audited financial statements. Management has performed their analysis through April 5, 2017, which is the date at which the financial statements were available to be issued.

NOTE 2 – DEPOSITORY SECURITY

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions with maturities of not more than two years; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

Concentration of credit risk. State statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The District has no designated "peak periods." All deposits were legally secured at December 31, 2016 and 2015.

At December 31, 2016 the District's carrying amount of deposits was \$340,538 and the bank balances were \$344,287. The bank balance was held by two banks resulting in a concentration of credit risk. Of the bank balances, \$282,857 was covered by federal depository insurance and \$61,430 was collateralized with securities held by the pledging financial institutions' agents in the District's name.

The following is a comparison of depository security with balances on deposit with the District's designated depositories at December 31, 2016:

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2
ABILENE, KANSAS
DECEMBER 31, 2016

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – DEPOSITORY SECURITY (CONTINUED)

<u>Financial Institution</u>	<u>Demand Deposits on 12/31/2016</u>	<u>Time Deposits on 12/31/2016</u>	<u>FDIC Coverage</u>	<u>Pledged Securities</u>	<u>Unsecured Deposits</u>
Pinnacle Bank	\$311,430	-	\$250,000	\$62,430	-
Citizens State Bank	-	\$32,857	\$32,857	-	-

At December 31, 2015 the District's carrying amount of deposits was \$260,915 and the bank balances were \$261,597. The bank balances were entirely covered by federal depository insurance.

The following is a comparison of depository security with balances on deposit with the District's designated depositories at December 31, 2015:

<u>Financial Institution</u>	<u>Demand Deposits on 12/31/2015</u>	<u>Time Deposits on 12/31/2015</u>	<u>FDIC Coverage</u>	<u>Pledged Securities</u>	<u>Unsecured Deposits</u>
Pinnacle Bank	\$228,872	-	\$228,872	-	-
Citizens State Bank	-	\$32,725	\$32,725	-	-

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable are customer water bills that have been invoiced but remain unpaid. The balance is shown net of the allowance for doubtful accounts. Using past payment history and the aging report, the allowances as of December 31, 2016, and 2015 have been determined to be zero.

The following is an aging of accounts receivable for the District at December 31, 2016 and 2015:

<u>Accounts Receivable</u>	<u>Total</u>	<u>Current</u>	<u>Over 30 Days</u>
2016	\$50,811	\$50,038	\$773
2015	\$37,514	\$36,670	\$844

NOTE 4 – BUDGETS AND BUDGETARY ACCOUNTING

The District is not required to adopt a legal budget; therefore, no budgetary comparison is prepared as a financial statement. The Board approves an estimated budget each year per K.S.A. 82a-628, which is used by management to internally monitor the District's expenditures and is presented as supplementary information.

NOTE 5 – CAPITAL ASSETS

Financial statements issued for 1974 and prior periods reported only cash receipts and disbursements for the period covered. Historical costs for the District and financing received from grants and land owners were not accumulated. The total cost of the water system's depreciable property was determined to be \$2,145,359. This cost is being depreciated over fifty (50) years useful life, which began on October 1, 1975. Other assets are being depreciated with useful lives ranging from five years for vehicles and computers to 50 years for water distribution system upgrades and additions.

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2
ABILENE, KANSAS
DECEMBER 31, 2016

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Capital Asset Activity for the year ended December 31, 2016 was as follows:

	Beginning Balance	Capital Acquisitions / (Depreciation)	(Sales) / Disposals	Ending Balance
Capital Assets Being Depreciated:				
Abilene Treatment Plant	\$ 924,194	\$ -	\$ -	\$ 924,194
Office Equipment	30,231	-	(5,528)	24,703
Vehicles & Equipment	88,011	-	-	88,011
Office / Warehouse	229,502	-	-	229,502
Distribution System	4,651,290	84,791	-	4,736,081
Total Capital Assets Being Depreciated	5,923,228	84,791	(5,528)	6,002,491
Less Accumulated Depreciation For:				
Abilene Treatment Plant	(317,306)	(18,484)	-	(335,790)
Office Equipment	(9,185)	(2,491)	4,975	(6,701)
Vehicles and Equipment	(35,924)	(14,025)	-	(49,949)
Office/Warehouse	(8,131)	(5,737)	-	(13,868)
Distribution System	(2,463,331)	(117,645)	-	(2,580,976)
Total Accumulated Depreciation	(2,833,877)	(158,382)	4,975	(2,987,284)
Net Being Depreciated	3,089,351	(73,591)	(553)	3,015,207
Total Capital Assets	\$ 3,089,351	\$ (73,591)	\$ (553)	\$ 3,015,207

Capital Asset Activity for the year ended December 31, 2015 was as follows:

	Beginning Balance	Capital Acquisitions / (Depreciation)	(Sales) / Disposals	Ending Balance
Capital Assets Being Depreciated:				
Abilene Treatment Plant	\$ 924,194	\$ -	\$ -	\$ 924,194
Office Equipment	31,855	3,865	(5,489)	30,231
Vehicles & Equipment	78,080	10,860	(929)	88,011
Office / Warehouse	229,502	-	-	229,502
Distribution System	3,612,110	1,043,140	(3,960)	4,651,290
Total Capital Assets Being Depreciated	4,875,741	1,057,865	(10,378)	5,923,228
Less Accumulated Depreciation For:				
Abilene Treatment Plant	(298,823)	(18,483)	-	(317,306)
Office Equipment	(11,722)	(2,952)	5,489	(9,185)
Vehicles and Equipment	(23,846)	(13,007)	929	(35,924)
Office/Warehouse	(2,393)	(5,738)	-	(8,131)
Distribution System	(2,363,487)	(103,804)	3,960	(2,463,331)
Total Accumulated Depreciation	(2,700,271)	(143,984)	10,378	(2,833,877)
Net Being Depreciated	2,175,470	913,881	-	3,089,351
Total Capital Assets	\$ 2,175,470	\$ 913,881	\$ -	\$ 3,089,351

Depreciation expense for the years ended December 31, 2016 and 2015 was \$158,382 and \$143,984 respectively.

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2
ABILENE, KANSAS
DECEMBER 31, 2016

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 – BONDS PAYABLE

On June 15, 2012, the district issued \$420,000 in Kansas Rural Water Finance Authority Revenue Bonds, Series E 2012 with effective interest rates ranging from 1.00% to 4.2%. The new bond issue paid-off the outstanding note with the United States Department of Agriculture, Rural Development. Interest payments are due semi-annually on June 1 and December 1. Principal payments are due starting on December 1, 2012 and maturing in 2035.

2012 Bonds Payable Information:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2017	15,000	11,670	26,670
2018	15,000	11,445	26,445
2019	15,000	11,145	26,145
2020	15,000	10,845	25,845
2021	15,000	10,545	25,545
2022-2026	75,000	46,875	121,875
2027-2031	100,000	33,250	133,250
2032-2035	105,000	12,350	117,350
Totals	<u>\$ 355,000</u>	<u>\$ 148,125</u>	<u>\$ 503,125</u>

Issuance costs of \$14,412 were paid and expensed at the time this revenue bond was issued. The bonds were issued at a discount of \$10,000 which is amortized and charged to interest expense over the life of the bonds using the straight-line method. Interest expense for 2016 and 2015 was \$456 and \$457 respectively. A bond reserve account of \$32,426 is required to be maintained. \$32,857 is segregated as a Certificate of Deposit at Citizens State Bank and is presented as a noncurrent asset in the statements of net position.

NOTE 7 – LOANS PAYABLE

On December 21, 2011, the district entered into a Loan Agreement with the Kansas Department of Health and Environment (KDHE) for a Kansas Public Water Supply Loan not to exceed \$1,100,742, for the purpose of furnishing a public water supply project. Funding of the loan was provided by the Environmental Protection Agency through a Capitalization Grant for Drinking Water State Revolving Fund. Interest on the loan is 2.43% per annum. The first amendment to the loan agreement was effective September 16, 2014 and established the future payment schedule of the loan. The second amendment to the loan agreement was effective September 2, 2015 and decreased the original loan amount by \$63,018 bringing the new loan balance to \$1,037,724 and established a revised future payment schedule. Interest payments are due semi-annually on February 1 and August 1 and principal payments are due starting on February 1, 2016 and maturing in 2035.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Service Fee</u>	<u>Total Payment</u>
2017	41,843	20,516	3,452	65,811
2018	42,866	19,640	3,305	65,811
2019	43,913	18,743	3,154	65,810
2020	44,987	17,824	2,999	65,810
2021	46,087	16,883	2,841	65,811
2022-2026	247,897	69,466	11,689	329,052
2027-2031	279,718	42,228	7,106	329,052
2032-2035	249,413	11,837	1,992	263,242
Totals	<u>\$ 996,724</u>	<u>\$ 217,137</u>	<u>\$ 36,538</u>	<u>\$ 1,250,399</u>

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2
ABILENE, KANSAS
DECEMBER 31, 2016

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 – DEBT SERVICE RATIO

The bond issue covenants require the District to maintain a debt service ratio of at least 1.25.

Debt Service Ratio Calculation for the year ending:

	<u>12/31/2016</u>	<u>12/31/2015</u>
Change in Net Position	\$ 86,229	\$ (132,654)
Interest Expense	39,081	33,329
Depreciation	158,382	143,984
Less Capital Contributions	(19,900)	(10,000)
Total Revenue Available for Debt Service	<u>\$ 263,792</u>	<u>\$ 34,659</u>
Debt Service Payments	89,132	27,270
Debt Service Ratio	<u>2.96</u>	<u>1.28</u>

NOTE 9 – LONG-TERM DEBT SCHEDULE

The following schedule shows the changes in long-term debt and related maturities as of December 31, 2016.

<u>Description</u>	<u>Date Issued</u>	<u>Original Amount</u>	<u>Outstanding 1-1-16</u>	<u>2016 Additions</u>	<u>Principal Payments</u>	<u>Outstanding 12-31-16</u>	<u>Interest Paid In 2016</u>
2012 Bond	06-15-12	420,000	370,000	-	15,000	355,000	11,895
KPWSLF	09-02-15	<u>1,037,724</u>	<u>1,037,724</u>	-	<u>41,000</u>	<u>996,724</u>	<u>21,237</u>
Total Indebtedness		<u>\$ 1,457,724</u>	<u>\$ 1,407,724</u>	<u>\$ -</u>	<u>\$ 56,000</u>	<u>\$ 1,351,724</u>	<u>\$ 33,132</u>

The following schedule shows the changes in long-term debt and related maturities as of December 31, 2015.

<u>Description</u>	<u>Date Issued</u>	<u>Original Amount</u>	<u>Outstanding 1-1-15</u>	<u>2015 Additions</u>	<u>Principal Payments</u>	<u>Outstanding 12-31-15</u>	<u>Interest Paid In 2015</u>
2012 Bond	06-15-12	420,000	385,000		15,000	370,000	12,120
KPWSLF	09-02-15	<u>1,037,724</u>	-	<u>1,037,724</u>	-	<u>1,037,724</u>	<u>11,925</u>
Total Indebtedness		<u>\$ 1,457,724</u>	<u>\$ 385,000</u>	<u>\$ 1,037,724</u>	<u>\$ 15,000</u>	<u>\$ 1,407,724</u>	<u>\$ 24,045</u>

NOTE 10 - RETIREMENT PLAN

The district provides annuities for its eligible full-time employees. The District contributes 3% of the employee's salary to their annuity. If employment is terminated, the annuity remains the property of the employee. In 2016 and 2015, the District contributed \$4,474 and \$4,163 respectively to the retirement plan. The annuities are with the Lord Abbott Company.

NOTE 11 – LITIGATION

There were no legal actions involving the District as of December 31, 2016 and through the date of this report that require disclosure.

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2
ABILENE, KANSAS
DECEMBER 31, 2016

NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 - COMPENSATED ABSENCES POLICY

Sick Leave: The District provides sick leave for their eligible full-time employees at a rate of two days per month. These days may be carried forward to future years up to a maximum of 90 days. If the employment is terminated, the sick leave is lost. However, an employee with a 90-day accumulation can elect upon retirement to use sick leave to retire one month early with pay.

Vacation Leave: Upon completion of one year of continuous employment, a regular full-time employee earns vacation days as follows: After one year, five days are earned; after two years, ten days are earned; and, after three years, ten days plus one day for each year of employment after the third year. Employees cannot earn more than three weeks of vacation (15 days per year). A maximum of one-half of earned vacation can be carried over to the following calendar year. Employees are paid all earned vacation upon termination of employment. At December 31, 2016 and 2015, the value of accrued vacation was \$2,802 and \$2,330 respectively.

NOTE 13- DESIGNATIONS OF UNRESTRICTED NET ASSETS

As of December 31, 2016 the Board of Directors has designated a reservation of unrestricted net assets for capital improvements in the amount of \$261,468 and for debt payment in the amount of \$37,862. At December 31, 2015, capital improvements and debt service were designated at \$214,846 and \$4,773 respectively.

NOTE 14 – RISK MANAGEMENT

Dickinson County Rural Water District No. 2 is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To insure against risk of these types of losses, the District has purchased commercial insurance coverage from EMC Companies through Anderson Peck Agency Inc. in Topeka, Kansas. Settled claims resulting from these risks have not exceeded commercial coverage in the past three fiscal years.

NOTE 15 – RELATED PARTIES

All the members of the board of directors and one employee are water district customers. Other than payment for water and approved salaries and wages, no material transactions occurred in 2016 or 2015 between the District and the directors and employees. All were current for the year ended December 31, 2016 on their water payments.

SUPPLEMENTARY INFORMATION

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2
BUDGET REPORT - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016

OPERATING REVENUES	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Monthly Minimum	\$ 367,000	\$ 359,026	\$ (7,974)
Water Revenues	266,000	273,687	7,687
TOTAL OPERATING REVENUES	<u>633,000</u>	<u>632,713</u>	<u>(287)</u>
EXPENDITURES			
Analysis of Water System	1,100	1,265	165
Clean Drinking Water Fee	1,320	1,365	45
Dues and Subscriptions	750	754	4
Electricity	29,000	21,626	(7,374)
Employee Benefits	4,119	4,475	356
Insurance	19,000	17,613	(1,387)
Legal, Accounting and Engineering Fees	12,200	8,868	(3,332)
Maintenance Supplies	2,000	2,249	249
Miscellaneous	1,000	803	(197)
Office Expense	8,200	3,126	(5,074)
Office Maintenance	5,040	5,050	10
Payroll Taxes	12,000	11,648	(352)
Postage	4,500	4,549	49
Printing	1,500	2,356	856
Rent / Lease Expense	20,787	20,449	(338)
Repairs and Maintenance	29,100	64,259	35,159
Salaries & Wages	164,500	160,326	(4,174)
Telephone	-	4,419	4,419
Training	2,300	1,521	(779)
Travel	200	89	(111)
Truck Expense	21,000	14,462	(6,538)
Water, Sewer and Trash Expense	-	426	426
Water Purchases - Abilene	113,000	87,504	(25,496)
TOTAL OPERATING EXPENDITURES	<u>452,616</u>	<u>439,202</u>	<u>(13,414)</u>
DEBT RETIREMENT:			
Principal Paid on Bond	20,948	15,000	(5,948)
Interest on Bond	11,895	11,895	-
Principal Paid on Loan	41,000	41,000	-
Interest on Loan	21,237	21,237	-
Service Fee on Loan	3,574	3,260	(314)
TOTAL EXPENDITURES	<u>551,270</u>	<u>531,594</u>	<u>(19,676)</u>
OTHER INCOME (EXPENSES)			
New Benefit Units	-	19,900	19,900
Interest Income	1,000	734	(266)
Other Income and (Expense)	-	41,486	41,486
Loan Reserve	-	132	132
Capital Improvements	(90,000)	(83,327)	6,673
Sale of Assets	-	(553)	(553)
TOTAL OTHER INCOME (EXPENSE)	<u>(89,000)</u>	<u>(21,628)</u>	<u>(67,372)</u>
INCREASE (DECREASE) IN CASH	<u>\$ (7,270)</u>	<u>\$ 79,491</u>	<u>\$ (86,761)</u>